

IN THE CHANCERY COURT OF DAVIDSON COUNTY, TENNESSEE
AT NASHVILLE

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CLERK AND MASTER
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PAULA A. FLOWERS,)
Commissioner of the Tennessee)
Department of Commerce and Insurance,)
Plaintiff,)

v.)

No. 03-316-111

VILLAGE LIFE, INC., FREDDIE LEE)
CARR, JENELLE CEDENO CARR, and)
JAMIE WEST,)
Defendants.)

VERIFIED COMPLAINT

This complaint alleges that some or all of the Defendants, as unregistered broker-dealers and/or agents, have sold and/or solicited the sale of unregistered securities in this State in violation of the Tennessee Securities Act of 1980. This complaint also alleges that some or all of the Defendants have: (1) employed any device, scheme, or artifice to defraud; (2) made untrue statements of material facts and/or omitted to state material facts necessary in order to make statements made, in light of the circumstances in which they were made, not misleading, in the sale or offer of sale of such unregistered securities and/or (3) engaged in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the sale or purchase of any security in this state directly or indirectly, in violation of the Tennessee Securities Act of 1980.

I. JURISDICTION AND VENUE

1. This Court has jurisdiction pursuant to the Tennessee Securities Act of 1980, Tenn. Code Ann. § 48-2-119 (1995).

2. Venue is proper in Davidson County, pursuant to Tenn. Code Ann. § 48-2-119, and because some or all of the Defendants have omitted to file with the Commissioner of Commerce and Insurance, whose official residence and place of business is in Davidson County, a registration statement for investments in Defendants' Home Ownership, Auto Ownership, Student Loan and Credit Card Programs as non-exempt securities pursuant to Tenn. Code Ann. §§ 48-2-104-107, and applications for registration of Defendants as broker-dealers or agents, pursuant to Tenn. Code Ann. §§ 48-2-109-110.

II. PARTIES

3. Plaintiff Paula A. Flowers is the Commissioner of the Tennessee Department of Commerce and Insurance. She is charged with the administration of the Tennessee Securities Act of 1980, Tenn. Code Ann. §§ 48-2-101, *et seq.*

4. Defendant Village Life, Inc. ("VLI"), is a Tennessee corporation, with its business address located at 429 Nissan Dr., Suite 102, Smyrna, Tennessee 37167. Defendant VLI has never registered with the Securities Division of the Tennessee Department of Commerce and Insurance as a broker-dealer or agent pursuant to Tenn. Code Ann. §§ 48-2-109-110. *See* Affidavit of Larry Burton attached hereto as Exhibit A and incorporated herein by this reference.

Its registered agent for service of process is James Freeman, III, 201 Fourth Avenue North, Nashville, Tennessee 37219.

5. Defendant Freddie Lee Carr is a citizen and resident of Rutherford County, Tennessee and is believed to be the President and Co-Owner of Defendant VLI. Defendant Freddie Carr has never registered with the Securities Division of the Tennessee Department of Commerce and Insurance as a broker-dealer or agent, pursuant to Tenn. Code Ann. §§ 48-2-109-110. *See* Affidavits of John Perry Warden attached hereto as Collective Exhibit B and incorporated herein by this reference. He may be served with process at his personal residence, which is located at 695 Forest Ridge Drive, LaVergne, Tennessee 37086.

6. Defendant Jenelle Cedenno Carr is a citizen and resident of Rutherford County, Tennessee and is believed to be a Co-Owner of Defendant VLI. Defendant Jenelle Carr has never registered with the Securities Division of the Tennessee Department of Commerce and Insurance as a broker-dealer or agent, pursuant to Tenn. Code Ann. §§ 48-2-109-110. *See* Exhibit B. She may be served with process at her personal residence, which is located at 695 Forest Ridge Drive, LaVergne, Tennessee 37086.

7. Defendant Jamie West is a citizen and resident of Rutherford County, Tennessee and is believed to be the Office Manager of Defendant VLI. Defendant West has never registered with the Securities Division of the Tennessee Department of Commerce and Insurance as a broker-dealer or agent, pursuant to Tenn. Code Ann. §§ 48-2-109-110. *See* Exhibit B. She may be served with process at 429 Nissan Drive, Suite 102, Smyrna, Tennessee 37167.

III. GENERAL ALLEGATIONS

8. Defendant VLI was incorporated as a Tennessee corporation on May 30, 2002. Shortly thereafter, it began to offer membership in four different programs both through seminars and through its website on the Internet. *See* Affidavits of Stuart Huffman and Eddie Davis attached hereto as Exhibits C and D, respectively, and incorporated herein by this reference.

9. As a result of several inquiries, the Securities Division of the Tennessee Department of Commerce and Insurance opened an investigation on Defendant VLI on January 13, 2003. *See* Exhibits C and D.

10. On January 30, 2003, two investigators with the Securities Division attended a seminar in Smyrna, Tennessee, held by Defendant VLI. At this seminar, the investigators were introduced to Defendants Freddie Carr and Jamie West. Defendant Carr was specifically introduced as President of VLI and Defendant West was introduced as the Office Manager of VLI, as well as the primary presenter of the seminar. *Id.*

11. During the course of the seminar, Defendants West and Freddie Carr discussed the four different investment programs offered by VLI. These programs were: (1) the Home Ownership Program; (2) the Auto Ownership Program; (3) the Student Loan Program; and, (4) the Credit Card Program. Each of these programs was intended, as represented by Defendants West and Freddie Carr, to promote "debt-free living." *Id.*

12. Individual investors are allowed to participate in each of these programs at the same time, but are prohibited from participating in the same program after completion, until a specific time period had elapsed. For example, an individual investor could only participate in

the Home Ownership program every five (5) years. It was represented that churches, however, would be allowed to participate in the programs every year and would not have to pay any taxes.

Id.

13. Defendants represented, both in the seminar and on their Internet website, that under the Home Ownership Program once an individual's funds are available, the funds could be used toward the purchase of a home, to build a home or to pay off an existing mortgage, including a second mortgage and an early pay-off penalty. This program provides a range of plans ranging from \$75,000 to \$500,000 in available funds, depending upon the amount of the individual's down payment, which ranges from \$375 to \$2,500. *See* Affidavit of Dale Clements attached hereto as Exhibit E and incorporated herein by this reference. *See also* Exhibits C and D.

14. In order to participate in the Home Ownership Program, an individual must first choose the plan they want. For example, if the individual chooses a plan whereby \$300,000 in funds are allegedly to be made available, then the corresponding required down payment is \$1,500. After choosing the plan, an individual is required to pay a \$25.00 application fee; pay the initial investment of the down payment and then make monthly payments of \$50 for six (6) months. Defendant VLI represents that the \$50 monthly fees are the only funds used for operating costs. *Id.*

15. In addition to paying these multiple fees, an individual is also required to bring four new members into the Home Ownership Program. *Id.*

16. Defendants also require individual investors to execute a contract in order to become an "independent member" of the Home Ownership Program. That contract provides,

among other things, that only the down payment is refundable after the six month period, if the investor is not satisfied with the progression of the program. If, however, the investor chooses to continue the program after the sixth month, he or she forfeits the right to receive any refund of the downpayment. The contract further provides that the investor "is solely responsible for the signing of four members to be eligible for payout" and that if the investor has "not fulfilled [that] obligation of signing four after a period of one (1) year, [the] contract is void and no refund is applicable." *See* Exhibit 1 to Affidavit of Dale Clements, Exhibit E.

17. Defendant VLI represents in the contract that it will provide "bona fide supervisory services and support to members, which may consists [sic] of personal service, correspondence, newsletter and or telephone contact" and that it "will provide literature and advertising aids on receipt of application and clearance funds." Investors are prohibited by the contract from using any materials except those provided by VLI; from advertising in any form without the prior written approval of VLI; and, from making any statements, claims, warranties or representations concerning VLI which are not published in official VLI material. *Id.*

18. The contract also provides that as a VLI-member, an investor is "eligible for a (one) home built or purchased valued \$75,000 - \$500,000, which will be paid directly to whoever owns the deed to the property, and at no time will cash be issued." *Id.*

19. Finally, the contract provides that "VLI may change its Rules, Regulations, Policies, Procedures, and dollars spend [sic] when building the homes in order to maintain a viable marketing system and comply with changes in specific laws or economic conditions" and that the investor will abide by any such changes. *Id.*

20. During the January 30th seminar, Defendant West and/or Defendant Freddie Carr explained how the program would generate money using the "4 x 6" plan. In the example, it was assumed that everyone participating in the program would sign up for the least amount on the Home Ownership program - \$375. The program would then work as follows:

Month 1	$\$375 \times 4 = \$1,500$
Month 2	$\$1,500 \times 4 = \$6,000$
Month 3	$\$6,000 \times 4 = \$24,000$
Month 4	$\$24,000 \times 4 = \$96,000$
Month 5	$\$96,000 \times 4 = \$384,000$
Month 6	$\$384,000 \times 4 = \$1,536,000$

The (4) represents the four individuals that each individual investor is required to sign up as new members. See Exhibits C and D.

21. Defendants also represented at the seminar that the program was similar to an insurance company where the insurance premiums are pooled together and then anytime someone is involved in an accident, the money is taken out and given to that individual. As the Defendants explained it, this was why insurance companies could offer a \$250,000 policy for only \$80 per month. *Id.*

22. Defendants' other three programs operate in a similar manner. Defendants represent that with their Auto Ownership Program, you can have the title to a brand new car or pay off an existing auto loan in six months. This plan offers a number of plans with available funds ranging from \$1,000 to \$70,000 and the corresponding down payment ranging from \$100 to \$700. As with the Home Ownership Program, the individual is required to pay a \$25 application fee, the initial down payment and then the \$50 monthly payments for a period of six months, as well as bring four new members into the program. An individual investor can

participate in this program every three (3) years. *See* Exhibit 1 to Affidavit of Dale Clements, Exhibit E.

23. The Student Loan and Credit Card Programs are similar. The Student Loan program represents that it will pay off existing student loans in the individual investor's name, with available funds ranging from \$5,000 to \$50,000 and the corresponding down payment ranging from \$50 to \$1,000. The Credit Card program represents that it will pay off existing credit card debts owed prior to the date of application and the applicant must be the primary card holder. The range of funds available and corresponding down payment amounts are the same as for the Student Loan program. This program requires the same application fee, down payment and monthly fees, as well as the signing of four new members, as required by the other two programs. Individual investors can participate in these programs once every four years. *Id.*

24. During the January 30th seminar, Defendant West represented that she had a brand new 2003 Infiniti G-35 as a result of participating in the Auto Ownership Program and that since November, 2002, at least one (1) house and two (2) automobiles had been purchased through the Home Ownership and Auto Ownership Programs. Defendant West further represented that a 2003 Cadillac CTS had been obtained on January 29, 2003 (the day before the seminar) through the Auto Ownership Program. At the conclusion of the seminar, this Cadillac was parked directly in front of the building so that it could be seen by everyone exiting the seminar. *See* Exhibits C and D.

25. On January 23, 2003, the Virginia State Corporation Commission issued an Order for Temporary Injunction against Defendant VLI, alleging that VLI had sold unregistered securities in Virginia. *See* Exhibit 2 to Affidavit of Dale Clements, Exhibit E. This Order was

based upon the facts set forth in the Affidavit of a Senior Investigator for the Virginia Division of Securities and Retail Financing, concerning representations made by Defendant Freddie Carr during seminars conducted in Richmond and Hopewell, Virginia in early January, 2003.

Defendant Freddie Carr represented, among other things, that Defendant VLI was set up as a debt consolidation company and, therefore, not subject to regulation; that the money paid into the programs is not invested, but simply placed in a trust account at SunTrust Bank; that the program had already paid out on three (3) cars and one house that was pending; that the program is in fourteen (14) states, twenty-two (22) cities and has approximately 2400 members; and, that due to the processing and gathering of information, members are not immediately paid at the end of the six month period. *See* Exhibit 3 to Affidavit of Dale Clements, Exhibit E.

26. During the course of the January 30th seminar in Smyrna, Tennessee, Defendants did not disclose this Order of Temporary Injunction, nor have they disclosed it on their Internet website. *See* Exhibits C and D.

27. Prior to attending the January 30th seminar, the Securities Division conducted an undercover telephone conversation with a female representative of Defendant VLI, who is believed to have been Defendant Jenelle Carr. This conversation was recorded by the Securities Division. During the course of that conversation, the VLI representative stated that they were conducting four seminars a week at the Smyrna office; that they now had 2,500 members from Tennessee to Hawaii; and, that they have had about 2,000 new members in the last two months. The VLI representative stated that the company was based on "collective activity by a lot of people who want to do the same thing" and that it "worked like a group insurance policy." She further represented that Defendant VLI depends upon "word of mouth to advertise" its programs

and that “[w]e have to be able to have new people to sign up, for people to be able to benefit.”

See Exhibit E.

28. The above-described investments in Defendants’ Home Ownership; Auto Ownership; Student Loan and Credit Card Programs are investment contracts as defined by the Tennessee Supreme Court in *King v. Pope*, ___ S.W.3d ___ (December 19, 2002) and, therefore, constitute securities as defined in the Tennessee Securities Act of 1980, Tenn. Code Ann. § 48-2-102(12). These investment contracts were never registered with the Securities Division of the Tennessee Department of Commerce and Insurance as required by Tenn. Code Ann. § 48-2-104. See Affidavit of Cora Alton attached hereto as Exhibit F and incorporated herein by this reference.

IV. THE LAW

Tennessee Securities Act of 1980

29. The term “security” is defined under the Act as:

any note, stock, treasury stock, bond, debenture, evidence of indebtedness, a life settlement contract, as defined in § 56-50-102, or any fractional or pooled interest in a life insurance policy or life settlement contract, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting trust certificate, certificate of deposit for a security, certificate of interest or participation in an oil, gas, or mining title or lease or in payments out of production under such a title or lease; or, in general, any interest or instrument commonly known as a “security,” or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

Tenn. Code Ann. § 48-2-102(12).

30. A “broker-dealer” is defined under the Act as:

any person engaged in the business of effecting transactions in securities for the account of others, or any person engaged in the business of buying or selling securities issued by one (1) or more other persons for such person’s own account and as part of a regular business rather than in connection with such person’s investment activities.

Tenn. Code Ann. § 48-2-102(3).

31. An “agent” is defined under the Act as:

any individual, other than a broker-dealer, who represents a broker-dealer in effecting or attempting to effect purchases or sales of securities from, in or into this state.

32. “Person” is defined under the Act as “a natural person, a sole proprietorship, a corporation, a partnership, an association, a limited liability company, a joint-stock company, a trust, a governmental entity or agency, or any other unincorporated organization.” Tenn. Code Ann. § 48-2-102(9).

33. Under the Act, it is unlawful for any person to sell or offer to sell any security in this state unless the security is either registered under the Act; is exempt under § 48-2-103; or, is a covered security as is defined in § 48-2-102(14). *See* Tenn. Code Ann. § 48-2-104.

34. Further, it is unlawful under the Act for any person to transact business from or in this state as a broker-dealer unless such person is registered as a broker-dealer or agent with the Securities Division. *See* Tenn. Code Ann. § 48-2-109(a).

35. The Act further provides that it is unlawful for any person, in connection with the offer, sale or purchase of any security in this state, directly or indirectly, to:

(1) Employ any device, scheme, or artifice to defraud;

- (2) Make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; or
- (3) Engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

Tenn. Code Ann. § 48-2-121(a).

36. Tenn. Code Ann. § 48-2-119 provides that:

- (a) Whenever it appears to the commissioner that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of this part or any rule or order hereunder, the commissioner may, in the commissioner's discretion, bring an action in the chancery court of any county in this state to enjoin the acts or practices and to enforce compliance with this part or any rule or order hereunder.
- (b) Upon a proper showing, a permanent or temporary injunction, restraining order, writ of mandamus, disgorgement, or other proper equitable relief shall be granted and a receiver or conservator may be appointed for the defendant or the defendant's assets.

V. CAUSES OF ACTION

37. **COUNT ONE.** Defendants have violated the Tennessee Securities Act of 1980 by the marketing, soliciting and/or sale of unregistered securities in the State of Tennessee, pursuant to Tenn. Code Ann. § 48-2-104.

38. **COUNT TWO.** Defendants have (1) employed any device, scheme, or artifice to defraud; (2) made untrue statements of material facts and/or omitted to state material facts necessary in order to make statements made, in light of the circumstances in which they were made, not misleading, in the sale or offer of sale of such unregistered securities and/or (3) engaged in any act, practice or course of business which operates or would operate as a fraud or

deceit upon any person, in connection with the sale or purchase of any security in this State, directly or indirectly, in violation of the Tennessee Securities Act of 1980, Tenn. Code Ann. § 48-2-121(a)(2).

39. **COUNT THREE.** Defendant Village Life, Inc. has violated the Tennessee Securities Act of 1980 by transacting business as an unregistered broker-dealer and/or agent, pursuant to Tenn. Code Ann. §§ 48-2-109, 110.

40. **COUNT FOUR.** Defendant Freddie Lee Carr has violated the Tennessee Securities Act of 1980 by transacting business as an unregistered broker-dealer and/or agent, pursuant to Tenn. Code Ann. §§ 48-2-109, 110.

41. **COUNT FIVE.** Defendant Jenelle Ceden Carr has violated the Tennessee Securities Act of 1980 by transacting business as an unregistered broker-dealer and/or agent, pursuant to Tenn. Code Ann. §§ 48-2-109, 110.

42. **COUNT SIX.** Defendant Jamie West has violated the Tennessee Securities Act of 1980 by transacting business as an unregistered broker-dealer and/or agent, pursuant to Tenn. Code Ann. §§ 48-2-109, 110.

V. EXTRAORDINARY RELIEF

43. Unless an *ex parte* restraining order is entered per Tenn.R.Civ.P. 65.03 to preserve the status quo, Plaintiff and the public interest will suffer immediate and irreparable injury, loss or damage. Given the sworn averments that Defendants have engaged in illegal activity, it is likely that Defendants are in possession of money converted from investors in

law and that in the absence of extraordinary relief, they will remove any remaining assets beyond the jurisdiction of this Court and destroy or move relevant books and records. If these assets, books and records are lost, they are irreplaceable.

44. Pursuant to Davidson County Local Rule § 19.02(a) and Tenn.R.Civ.P. 65, the Commissioner sets forth the following grounds as the basis for her request that this Court dispense with prior notice to the Defendants:

a. Based upon the facts set out in this Verified Complaint and exhibits thereto, which clearly demonstrate that Defendants have engaged in and are continuing to engage in an unlawful and illegal activity in this State in violation of the Tennessee Securities Act, the Commissioner submits that irreparable injury and loss will occur to the investors in this State unless a temporary restraining order is issued before notice can be served and a hearing had on the motion for a temporary restraining order.

b. As set out in the Verified Complaint, Defendants have been and will be traveling all over the United States conducting seminars for the next several weeks and thus will have the capability to easily remove monies received from Tennessee investors, as well as any books and records, from the jurisdiction of this Court, as well as the boundaries of this State.

c. It is believed that upon issuance of the Order of Temporary Injunction by the Virginia State Corporation Commission that Defendants immediately removed monies and/or other assets from the jurisdiction of that State in violation of that administrative order.

45. After a restraining order is entered, a temporary and permanent injunction should be issued upon these allegations. No prior application has been made for the relief requested herein.

VI. PRAYERS FOR RELIEF

WHEREFORE, plaintiff requests the following relief:

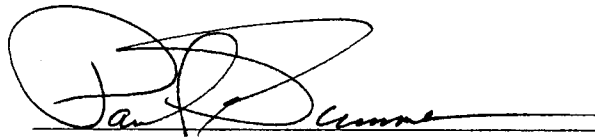
1. That this complaint be filed without cost bond as provided in Tenn. Code Ann. § 20-13-101 and 48-2-119, and that process issue and be served upon the Defendants requiring them to appear and to answer this complaint.
2. That this Court, pursuant to the Court's inherent equity power and Tenn. Code Ann. § 48-2-119, restrain and temporarily and permanently enjoin all further business activities by Defendants in contravention of state law as described in this complaint, including but not limited to, the marketing, soliciting and/or sale of unregistered securities in the State of Tennessee by unregistered broker-dealers or agents, in violation of the Tennessee Securities Act of 1980.
3. That this Court restrain and temporarily and permanently enjoin all persons, including Defendants, from disposing of, transferring, relocating, dissipating or otherwise altering the status of any of their assets, book, or records, or assets, books and records controlled by Defendants and relating to, arising out of, or derived from the activities described in this complaint, without prior approval of this Court, pursuant to Tenn. Code Ann. § 48-2-119 and Tenn.R.Civ.P. 65.
4. That the State be permitted to move this Court for appointment of receiver, order of disgorgement and/or restitution, or other proper equitable relief, as determined to be necessary, pursuant to Tenn. Code Ann. § 48-2-119(b).

5. That this Court assess all costs of this action against Defendants, for which execution may issue if necessary.

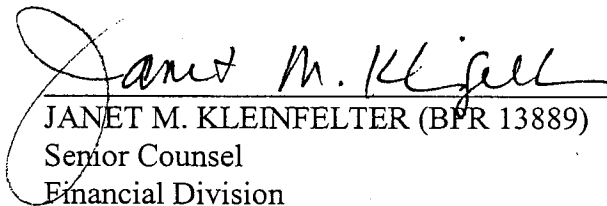
6. That this Court adjudge and decree that Defendants have engaged in the aforesaid acts and practices in violation of the Tennessee Securities Act of 1980.

7. That this Court award Plaintiff such other and further relief to which she may be entitled.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul G. Summers", written over a horizontal line.

PAUL G. SUMMERS (BPR 6285)
Attorney General and Reporter

A handwritten signature in black ink, appearing to read "Janet M. Kleinfelter", written over a horizontal line.

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